

**Alger County Road Commission
Component Unit Financial Statements
For the Year Ended December 31, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Alger County Road Commission</u>	County <u>Alger</u>
Audit Date <u>12/31/04</u>	Opinion Date <u>3/11/05</u>	Date Accountant Report Submitted to State: <u>3/31/05</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <u>Anderson, Tackman & Co, PLLC</u>			
Street Address <u>102 W. Washington St, Suite 109</u>	City <u>Marquette</u>	State <u>MI</u>	ZIP <u>49855</u>
Accountant Signature <u>Michael A. Lee CPA</u>			

ALGER COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Doug Miron, Chairperson

Paul Heyrman, Vice Chairperson

Gary Porter, Member

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Alger County Road Commission
Munising, Michigan 49862

We have audited the accompanying financial statements of the governmental activities of the Alger County Road Commission a component unit of the County of Alger, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, of the Alger County Road Commission as of December 31, 2004, and the changes in financial position there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, and budgetary comparison information on pages 6 through 13 and 30 through 31, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated March 11, 2005 on our consideration of the Alger County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering

Honorable Chairman and Members
of the Board of Commissioners
County of Alger, Michigan

the results of our audit.

Our audit was conducted for the purpose of forming opinion's on the financial statements that collectively comprise the Alger County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Alger County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of Alger County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has two funds, the general operations fund and a debt service fund. All of the Road Commission's activities are accounted for in the general operations fund, except for the bond payments which are accounted for in the debt service fund. The general operations fund and debt service fund are governmental type funds. Our analysis of the Road Commission's major fund begins on page 14. The fund financial statements begin on page 32 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets decreased approximately 16%, or \$289,277, from \$1,762,274 to \$1,472,997 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge or otherwise mandate payment of resources and include a legally enforceable requirement

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The net assets decreased by \$289,277 during 2004.

In the current fiscal year the Road Commission had a net loss of \$289,277, this was caused by the following items. The Road Commission inventoried and updated our fixed asset records, which created a \$667,691 loss. This was offset by \$189,940 in an insurance settlement with the State of Michigan regarding past state maintenance contracts, and \$108,344 in State Audit Adjustments relating to state maintenance. The residual \$80,130 was from all other activities.

Net assets as of December 31, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Current and Other Assets	\$2,035,780	\$1,433,453
Capital Assets	<u>3,857,925</u>	<u>4,891,856</u>
Total Assets	<u>5,893,705</u>	<u>6,325,309</u>
Long-Term Debt Outstanding	3,769,318	3,969,617
Other Liabilities	<u>651,390</u>	<u>593,417</u>
Total Liabilities	<u>4,420,708</u>	<u>4,563,034</u>
Net Assets		
Invested in Capital Assets		
Net of Debt	329,320	1,143,174
Restricted – Debt Service	138,817	94,787
Restricted – Operations	<u>1,004,860</u>	<u>524,314</u>
Total Net Assets	<u>\$1,472,997</u>	<u>\$1,762,275</u>

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2004 and 2003 follows:

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
Program Revenue		
License and Permits	\$ 3,380	\$ 3,283
Federal Grants	374,298	2,040,365
State Grants	2,398,549	3,014,109

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	Governmental Activities 2004	Governmental Activities 2003
Contributions From Local Units	\$ -	\$ 19,273
Charges for Services	1,310,080	902,578
Investment Earnings	16,203	5,150
Reimbursements	(598,549)	132,556
Total Revenue	<u>3,503,961</u>	<u>6,117,314</u>
Expenses		
Public Works	3,623,745	5,806,482
Interest Expense	169,493	180,705
Total Expenses	<u>3,793,238</u>	<u>5,987,187</u>
Excess Before Transfers	<u>(289,277)</u>	<u>130,127</u>
Increase in Net Assets	<u>\$ (289,277)</u>	<u>\$ 130,127</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund increased \$500,324 as compared to an increase of \$297,915 in the fund balance for the year ended December 31, 2003. Total operating revenues were \$4,169,471 and decrease of \$1,947,343 as compared to last year. Total expenditures were \$3,429,147, a decrease of \$2,847,063 as compared to last year.

The general operating fund had net income of \$500,324. This was caused by \$189,940 in an insurance settlement with the State of Michigan, \$108,344 in State Audit Adjustments and an increase in state maintenance contract revenues of \$109,218. The residual \$92,226 was from improved budgeting of expenditures.

A summary of changes in the Operating Fund is as follows:

	12/31/04 Operating Fund	12/31/03 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent
Revenues				
License & Permits	\$ 3,380	\$ 3,283	\$ 97	3%
Federal Grants	374,298	2,040,365	(1,666,067)	(82)
State Grants	2,398,549	3,014,109	(615,560)	(20)
Contributions From Local Units	-	19,273	(19,273)	(100)
Charges for Services	1,310,080	902,578	407,502	45
Interest and Rents	14,022	4,650	9,372	202

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	12/31/04 <u>Operating Fund</u>	12/31/03 <u>Operating Fund</u>	Favorable (Unfavorable) <u>Variance</u>	Variance <u>Percent</u>
Other Revenue	\$ 69,142	\$ 132,556	\$ (63,414)	(48)%
Total Revenues	<u>4,169,471</u>	<u>6,116,814</u>	<u>(1,947,343)</u>	<u>(32)</u>
Expenditures				
Public Works	3,603,969	5,802,786	2,198,817	38
Net Capital Outlay	(366,240)	209,406	575,646	275
Debt Service	<u>191,418</u>	<u>264,018</u>	<u>72,600</u>	<u>27</u>
Total Expenditures	<u>3,429,147</u>	<u>6,276,210</u>	<u>2,847,063</u>	<u>45</u>
Excess of Expenditures Over Revenues	<u>740,324</u>	<u>(159,396)</u>	<u>899,720</u>	<u>587</u>
Other Financing Sources				
Proceeds from lease	-	633,641	(633,641)	(100)
Transfers In (out)	<u>(240,000)</u>	<u>(176,330)</u>	<u>(63,670)</u>	<u>(36)</u>
Total Other Financing Sources	<u>(240,000)</u>	<u>457,311</u>	<u>(697,311)</u>	<u>(152)</u>
Excess of Revenues and Other Financing Sources Over Expenditures	500,324	297,915	202,409	68
Fund Balance—Beginning	<u>745,249</u>	<u>447,334</u>	<u>297,915</u>	<u>67</u>
Fund Balance--Ending	<u>\$ 1,245,573</u>	<u>\$ 745,249</u>	<u>\$ 500,324</u>	<u>67%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$1,852,408, lower than the original budget. The actual revenue recognized during 2004 was greater than the final amended budget by \$-0-.

The major reason for the reduction in budgeted revenues was that the H-58 construction phase grant revenue was not received due to the construction phase of the project not starting on time.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The final amended expenditure budget for 2004 was \$1,852,408, higher than the original budget. The actual expenditures recognized during 2004 were less than the final amended budget by \$-0-.

The major reason for the reduction in budgeted expenditures was that the H-58 construction phase of the project was not started because the engineering was not completed before winter.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2004, the Road Commission had invested \$3,857,925 in capital assets. This amount represents a net decrease (including additions and deductions) of \$1,033,931 or 21% as follows:

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2004/2003</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 49,332	\$ 49,332	0%
Land/Right-of-Way	-	-	N/A
Construction in Progress	-	-	N/A
Subtotal	<u>49,332</u>	<u>49,332</u>	<u>0%</u>
Capital Assets Being Depreciated			
Delectable Assets	-	-	0%
Buildings	3,856,684	3,856,684	0%
Equipment	4,696,924	4,969,363	(5)%
Yard and Storage	-	-	0%
Infrastructure	-	-	0%
Subtotal	<u>8,553,608</u>	<u>8,826,047</u>	<u>(3)%</u>
Total Capital Assets	<u>8,602,940</u>	<u>8,875,379</u>	<u>(3)%</u>
Total Accumulated Depreciation	<u>(4,745,015)</u>	<u>(3,983,523)</u>	<u>(19)%</u>
Total Net Capital Assets	<u>\$3,857,925</u>	<u>\$4,891,856</u>	<u>(21)%</u>

Capital Asset and Debt Administration

During fiscal year 2004, the Road Commission took a physical inventory of their equipment and disposed of 15 pieces of equipment for gross sales of \$ 8,688 and reconciled the equipment inventory to fixed asset module, which created a \$667,691 decrease in the book value of the Capital Assets

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$-0- and an additional \$-0- in construction in progress related to the infrastructure. The infrastructure recorded, during 2004, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ -
Various Resurfacing Projects and Related Land/Right-of-Way	-
Construction in Progress (Various Resurfacing Projects)	-
Land	-
Building	-
Trucks/Equipment	53,970
Yard and Storage	-
Total Additions	<u>\$53,970</u>

Debt

At the year end, the Road Commission had \$3,528,605 in bonds and installment purchase agreements versus \$3,748,682 last year, a decrease of 6% as shown below:

	<u>2004</u>	<u>2003</u>	<u>Variance</u>	<u>Total Percentage Change 2004/2003</u>
Bonds Payable	\$2,755,000	\$2,805,000	\$ (50,000)	(2)%
Installment Purchase Agreements	<u>773,605</u>	<u>943,682</u>	<u>(170,077)</u>	<u>(18)%</u>
Total	<u>\$3,528,605</u>	<u>\$3,748,682</u>	<u>\$ (220,077)</u>	<u>(6)%</u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 53% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$150,000 (6%) less Michigan Transportation Fund revenues in 2005. The Road Commission received approximately 0% of its revenues from township contributions during 2005, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2005, we expect to receive at least \$4,300,000 in federal and state aid for road projects, some of which was deferred from 2005. Some of these projects were released late in the year after the construction season.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The above items were considered when adopting the budget for 2005.

The fiscal year 2005 budget was developed in two phase construction and non-construction. The Non-construction phase included a reduction in MTF revenues of 6% and an increase in payroll and fringes of 2%, all other activities were held constant. The Construction phase included 3 projects for the fiscal year. 1) H-58 for \$2,850,000 paid with 100% federal funds. 2) H-15 for \$1,100,000 paid with 100% federal and state funds. And 3) North River Road in Autrain Township for \$176,000 paid with 80% federal and state funds and 20% Road Commission Funds.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alger County Road Commission's administrative offices at E9264 N-28, Munising, Michigan 49862.

Alger County Road Commission
Governmental Funds Balance Sheet / Statement of Net Assets
December 31, 2004

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
ASSETS			
Cash	\$ 1,162,960	\$ -	\$ 1,162,960
Accounts Receivable:			
Michigan Transportation Funds	299,099	-	299,099
State Highway - Other	179,845	-	179,845
Sundry Accounts	2,206	-	2,206
Inventories			
Road Materials	250,739	-	250,739
Equipment Parts and Materials	78,207	-	78,207
Prepaid Expense	62,724	-	62,724
Capital Assets	-	3,857,925	3,857,925
TOTAL ASSETS	\$ 2,035,780	3,857,925	5,893,705
LIABILITIES			
Liabilities:			
Current			
Accounts Payable	\$ 132,327	\$ -	\$ 132,327
Accrued Liabilities	67,488	-	67,488
Advances	306,701	-	306,701
Deferred Revenue	144,874	-	144,874
Bonds Payable - Due Within One Year	-	50,000	50,000
Notes Payable - Due Within One Year	-	241,787	241,787
Accumulated Employee Benefits - Due Within One Year	-	60,179	60,179
Bonds Payable - Due After One Year	-	2,705,000	2,705,000
Notes Payable - Due After One Year	-	531,818	531,818
Accumulated Employee Benefits - Due After One Year	-	180,534	180,534
TOTAL LIABILITIES	651,390	3,769,318	4,420,708
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for debt service	138,817	(138,817)	-
Unreserved and undesignated	1,245,573	(1,245,573)	-
Total Fund Equity	1,384,390	(1,384,390)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,035,780		
Net Assets:			
Invested in Capital Assets - Net of Related Debt		329,320	329,320
Restricted for Debt Service		138,817	138,817
Restricted for County Road		1,004,860	1,004,860
Total Net Assets		\$ 88,607	\$ 1,472,997

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance / Statement of Activities
For the year ended December 31, 2004

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
REVENUE			
Licenses and Permits	\$ 3,380	\$ -	\$ 3,380
Federal Grants	374,298	-	374,298
State Grants	2,398,549	-	2,398,549
Charges for Services	1,310,080	-	1,310,080
Interest and Rents	16,203	-	16,203
Other Revenue	69,142	667,691	(598,549)
TOTAL REVENUE	<u>4,171,652</u>	<u>667,691</u>	<u>3,503,961</u>
EXPENDITURES			
Current			
Primary Road Heavy Maintenance	338,841	-	338,841
Primary Road Maintenance	774,798	-	774,798
Local Road Heavy Maintenance	88,153	-	88,153
Local Road Maintenance	1,037,701	-	1,037,701
State Trunkline Maintenance	1,003,812	-	1,003,812
Equipment Expense - Net	169,727	-	169,727
Administrative Expense - Net	190,937	-	190,937
Compensated Absences	-	19,776	19,776
Capital Outlay - Net	(366,240)	366,240	-
Debt Service			
Principal	220,075	(220,075)	-
Interest	169,493	-	169,493
TOTAL EXPENDITURES	<u>3,627,297</u>	<u>165,941</u>	<u>3,793,238</u>
OTHER FINANCING SOURCES (USES)			
Change in Net Assets	<u>544,355</u>	<u>(833,632)</u>	<u>(289,277)</u>
Fund Balance / Net Assets - Beginning of Year	840,035	922,239	1,762,274
Fund Balance / Net Assets - End of Year	<u>\$ 1,384,390</u>	<u>\$ 88,607</u>	<u>\$ 1,472,997</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Combining Governmental Funds Balance Sheet
December 31, 2004

	General Fund	Debt Service Fund	Total
<u>ASSETS</u>			
Cash	\$ 1,024,143	\$ 138,817	\$ 1,162,960
Accounts Receivable:			
Michigan Transportation Funds	299,099	-	299,099
State Highway - Other	179,845	-	179,845
Sundry Accounts	2,206	-	2,206
Inventories			
Road Materials	250,739	-	250,739
Equipment Parts and Materials	78,207	-	78,207
Prepaid Expense	62,724	-	62,724
TOTAL ASSETS	<u>\$ 1,896,963</u>	<u>\$ 138,817</u>	<u>\$ 2,035,780</u>
<u>LIABILITIES</u>			
Liabilities:			
Current			
Accounts Payable	\$ 132,327	\$ -	\$ 132,327
Accrued Liabilities	67,488	-	67,488
Interest Payable	-	-	60,179
Advances	306,701	-	306,701
Deferred Revenue	144,874	-	144,874
TOTAL LIABILITIES	<u>651,390</u>	<u>-</u>	<u>711,569</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for debt service	-	138,817	138,817
Unreserved and undesignated	1,245,573	-	1,245,573
Total Fund Equity	<u>1,245,573</u>	<u>138,817</u>	<u>1,384,390</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,896,963</u>	<u>\$ 138,817</u>	<u>\$ 2,095,959</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Combining Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance
For the year ended December 31, 2004

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
REVENUE			
Licenses and Permits	\$ 3,380	\$ -	\$ 3,380
Federal Grants	374,298	-	374,298
State Grants	2,398,549	-	2,398,549
Charges for Services	1,310,080	-	1,310,080
Interest and Rents	14,022	2,181	16,203
Other Revenue	69,142	-	69,142
TOTAL REVENUE	<u>4,169,471</u>	<u>2,181</u>	<u>4,171,652</u>
EXPENDITURES			
Current			
Primary Road Heavy Maintenance	338,841	-	338,841
Primary Road Maintenance	774,798	-	774,798
Local Road Heavy Maintenance	88,153	-	88,153
Local Road Maintenance	1,037,701	-	1,037,701
State Trunkline Maintenance	1,003,812	-	1,003,812
Equipment Expense - Net	169,727	-	169,727
Administrative Expense - Net	190,937	-	190,937
Capital Outlay - Net	(366,240)	-	(366,240)
Debt Service			
Principal	170,075	50,000	220,075
Interest	21,343	148,150	169,493
TOTAL EXPENDITURES	<u>3,429,147</u>	<u>198,150</u>	<u>3,627,297</u>
OTHER FINANCING SOURCES (USES)			
Transfers In/Out	(240,000)	240,000	-
TOTAL OTHER FINANCING SOURCES(USES)	<u>(240,000)</u>	<u>240,000</u>	<u>-</u>
Change in Net Assets	500,324	44,031	544,355
Fund Balance / Net Assets - Beginning of Year	<u>745,249</u>	<u>94,786</u>	<u>840,035</u>
Fund Balance / Net Assets - End of Year	<u>\$ 1,245,573</u>	<u>\$ 138,817</u>	<u>\$ 1,384,390</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Notes to Financial Statements
December 31, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Alger County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Alger County Road Commission.

(1) Reporting Entity

The Alger County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alger County Road Commission, a discretely presented component unit of Alger County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Debt Service Fund is used to control the activity regarding their bond payments. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund and Debt Service Fund.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Alger County Road Commission. There are two funds reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund) and Debt Service Fund. These Funds are an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alger County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007 as permitted by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Bank Deposits	<u>\$1,162,960</u>
---------------	--------------------

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits	<u>\$1,162,891</u>	<u>\$1,188,488</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations. The risk disclosures for the Road Commission deposits, as required by Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits	<u>\$1,188,488</u>	<u>\$200,000</u>

NOTE D – DEFERRED COMPENSATION PLAN:

The Alger County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer (Alger County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Alger County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Alger County Road Commission for the current year was as follows:

	<u>Beginning Balances 1/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances 12/31/04</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 49,332	\$ -	\$ -	\$ 49,332
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>49,332</u>	<u>-</u>	<u>-</u>	<u>49,332</u>

NOTE E – CAPITAL ASSETS (Continued):

	Beginning Balances 1/1/04	Additions	Deletions	Ending Balances 12/31/04
Capital Assets Being Depreciated:				
Depletable Assets	\$ -	\$ -	\$ -	\$ -
Buildings	3,439,524	-	417,160	3,856,684
Road Equipment	4,774,688	51,955	(326,409)	4,500,234
Shop Equipment	88,381	1,885	-	90,266
Office Equipment	93,712	130	-	93,842
Engineers' Equipment	12,582	-	-	12,582
Yard and Storage	417,160	-	(417,160)	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	-	-	-
Subtotal	<u>8,826,047</u>	<u>53,970</u>	<u>(326,409)</u>	<u>8,553,608</u>
Less Accumulated Depreciation:				
Depletable Assets	-	-	-	-
Buildings	(382,236)	(81,530)	(268,629)	(732,395)
Road Equipment	(3,224,007)	(323,592)	(341,280)	(3,888,879)
Shop Equipment	(59,057)	(6,320)	-	(65,377)
Office Equipment	(37,382)	(8,676)	(1)	(46,059)
Engineers' Equipment	(12,213)	(92)	-	(12,305)
Yard and Storage	(268,628)	-	268,628	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	-	-	-
Subtotal	<u>(3,983,523)</u>	<u>(420,210)</u>	<u>(341,282)</u>	<u>(4,745,015)</u>
Net Capital Assets Being Depreciated	<u>4,842,524</u>	<u>(366,240)</u>	<u>(667,691)</u>	<u>3,808,593</u>
Total Net Capital Assets	<u>\$ 4,891,856</u>	<u>\$ (366,240)</u>	<u>\$ (677,691)</u>	<u>\$ 3,857,925</u>

Depreciation expense was charged to programs of the Alger County Road Commission as follows:

Equipment Expense:	
Direct	\$323,592
Indirect	87,850
Administrative Expense	8,768
Total Depreciation Expense	<u>\$420,210</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Alger County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):

statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Alger County Road Commission's competitive bargaining units and requires a contribution from the employees of 4.7% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2004, Alger County Road Commission's annual pension cost of \$94,932 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual Pension Cost (APC)	\$48,544	\$51,887	\$38,820
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
Actuarial Value of Assets	\$5,920,874	\$5,846,332	\$6,012,900
Actuarial Accrued Liability (AAL)	\$5,816,427	\$6,449,526	\$6,680,552
Unfunded AAL (UAAL)	\$ (104,447)	\$603,194	\$667,652
Funded Ratio	102%	91%	90%
Covered Payroll	\$1,158,506	\$1,161,869	\$1,155,218
UAL as a Percentage of Covered Payroll	0%	52%	58%

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$374,298 for contracted projects and \$-0- negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects which will be included with the County's Single Audit. This threshold has been increased to \$500,000 effective for fiscal years ending after December 31, 2004.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 5 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$25,488 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The changes in long-term debt of the Road Commission may be summarized as follows:

<u>Loans Payable</u>	Balances <u>January 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balances <u>December 31, 2004</u>
Peoples State Bank:				
March 2000 loan	\$ 170,644	\$ -	\$ 82,886	\$ 87,758
September 2000 loan	41,814	-	20,279	21,535
February 2000 loan	40,051	-	9,380	30,671
December 2004 loan #1	110,670	-	-	110,670
December 2004 loan #2	522,971	-	-	522,971
ORIX:				
July 1999 loan	57,532	-	57,532	-
Michigan Transportation Fund:				
Notes payable	2,805,000	-	50,000	2,755,000
Vested Employee Benefits Payable:				
Vacation benefits	81,465	8,137	-	89,602
Sick leave benefits	139,470	11,641	-	151,111
TOTAL	<u>\$3,969,617</u>	<u>\$19,775</u>	<u>\$220,077</u>	<u>\$3,769,318</u>

Loans Payable – Equipment Purchases

The Road Commission borrowed various amounts from local banks to finance the purchase of various items of road equipment, which are pledged as security for the loans. The lenders, terms and annual principal and interest requirements are as follows:

Peoples State Bank – March 2000 Loan 2000 Tandem Trucks

**Terms: Purchase price of \$395,133 at 5.51%
interest from March 2001 to March 2005**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2005	<u>\$87,758</u>	<u>\$4,837</u>
	<u>\$87,758</u>	<u>\$4,837</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):

**Peoples State Bank – September 2000 Loan
Snogo**

**Terms: Purchase price of \$95,950 at 6.11%
interest from September 2001 to September 2005**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2005	<u>\$21,535</u>	<u>\$1,310</u>
	<u>\$21,535</u>	<u>\$1,310</u>

**Peoples State Bank – February 2002 Loan
Tractor with Mower Attachment**

**Terms: Purchase price of \$48,800 at 4.91%
interest from February 2002 to February 2007**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 9,738	\$1,506
2006	10,216	1,028
2007	<u>10,717</u>	<u>527</u>
	<u>\$30,671</u>	<u>\$3,061</u>

**Peoples State Bank – December 2004 – Loan #1
Snogo**

**Terms: Purchase price of \$110,670 at 3.94%
interest from December 2004 to December 2008**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 26,085	\$ 4,360
2006	27,113	3,332
2007	28,181	2,264
2008	<u>29,291</u>	<u>1,154</u>
	<u>\$110,670</u>	<u>\$11,110</u>

**Peoples State Bank – December 2004 – Loan #2
4 2004 Tandem Trucks**

**Terms: Purchase price of \$522,971 at 3.94%
interest from December 2004 to December 2009**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 96,670	\$20,606
2006	100,480	16,796
2007	104,439	12,837
2008	108,553	8,723
2009	<u>112,829</u>	<u>4,447</u>
	<u>\$522,971</u>	<u>\$63,409</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):

ORIX – July 1999 LOAN

2 Loaders

**Terms: Purchase price of \$262,060 at 4.89%
interest from July 1999 to June 2004**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
N/A	\$ -	\$ -

During 2001, the Alger County Road Commission entered into Act 143, Michigan transportation Fund Revenue Notes payable for the purpose of constructing a new garage and office facility in Munising in the amount of \$2,900,000 with interest from 5% to 8%.

**Michigan Transportation Fund
Notes Payable – Series 2000**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 50,000	\$ 144,150
2006	55,000	139,150
2007	55,000	135,550
2008	60,000	130,950
2009	60,000	126,150
2010	65,000	122,125
2011	65,000	118,875
2012	70,000	115,500
2013	75,000	111,875
2014	75,000	108,125
2015	80,000	104,250
2016	85,000	100,125
2017	90,000	95,750
2018	95,000	91,125
2019	100,000	86,250
2020	105,000	81,125
2021	110,000	75,750
2022	115,000	71,125
2023	120,000	64,250
2024	125,000	58,125
2025	135,000	51,625
2026	140,000	44,750
2027	150,000	37,500
2028	155,000	29,875
2029	165,000	21,875
2030	175,000	13,375
2031	180,000	4,500
	<u>\$2,755,000</u>	<u>\$2,283,825</u>

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated with a 960 hour maximum accumulation.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 480 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

**Required Supplemental
Information**

Alger County Road Commission
General Operating Fund
Statement of Revenues and Other Financing Sources
Budgetary Comparison Schedule
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Permits	\$ 3,000	\$ 3,380	\$ 3,380	-
Federal Aid				
Surface Transportation Program	-	68,889	68,889	-
High Priority Funds	2,700,000	305,409	305,409	-
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,406,573	1,350,009	1,350,009	-
Local Road	622,118	591,806	591,806	-
Snow Removal	273,000	280,818	280,818	-
Economic Development Funds				
Target Industries (A)	-	25,863	25,863	-
Forest Road "E"	172,188	140,053	140,053	-
Contributions From Local Units				
Charges for Services				
State Trunkline Maintenance	833,000	1,301,755	1,301,755	-
Salvage Sales	500	8,325	8,325	-
Interest and Rents				
Interest	1,500	14,022	14,022	-
Other Revenue				
Reimbursements	-	60,454	60,454	-
Gain on (Loss) on Equipment Disposals	-	8,688	8,688	-
Total Operating Revenue	<u>6,021,879</u>	<u>4,169,471</u>	<u>4,169,471</u>	-
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>6,021,879</u>	<u>4,169,471</u>	<u>\$ 4,169,471</u>	-
Fund Balance - January 1, 2004	<u>745,249</u>	<u>745,249</u>		
Total Budget	<u>\$ 6,767,128</u>	<u>\$ 4,914,720</u>		

Alger County Road Commission
General Operating Fund
Statement of Expenditures - Budget and Actual
For the Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Roads:				
Heavy Maintenance	\$ 2,700,000	\$ 318,563	\$ 318,563	\$ -
Maintenance	760,000	774,798	774,798	-
Local Roads:				
Heavy Maintenance	20,000	27,549	27,549	-
Maintenance	1,000,000	1,037,701	1,037,701	-
Primary Road Structures:				
Heavy Maintenance	20,000	20,278	20,278	-
Local Road Structures:				
Heavy Maintenance	50,000	60,604	60,604	-
Other:				
Trunkline Maintenance	1,033,000	1,003,812	1,003,812	-
Equipment Expense - Net	275,000	169,727	169,727	-
Direct			860,829	
Indirect			483,889	
Operating			197,289	
Less: Equipment Rentals			(1,372,280)	
Administrative Expense - Net	153,500	190,937	190,937	-
Administrative Expense			284,758	
Less: Overhead - State Trunkline			(93,821)	
Capital Outlay - Net	(455,000)	(366,240)	(366,240)	-
Capital Outlay			53,970	
Less: Depreciation Credits			(420,210)	
Debt Service:				
Principle	320,537	170,075	170,075	-
Interest	185,388	21,343	21,343	-
Total Expenditures	<u>6,062,425</u>	<u>3,429,147</u>	<u>3,429,147</u>	-
Other Financing Uses:				
Transfers to Debt Service	-	240,000	240,000	-
Total Other Financing Uses	-	240,000	240,000	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>6,062,425</u>	<u>3,669,147</u>	<u>\$ 3,669,147</u>	<u>\$ -</u>
Fund Balance - December 31, 2004	<u>704,703</u>	<u>1,245,573</u>		
Total Budget	<u>\$ 6,767,128</u>	<u>\$ 4,914,720</u>		

Supplemental Financial
Information

Alger County Road Commission
Analysis of Changes in Fund Balance
For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Total Operating Revenues	\$ 1,765,354	\$ 1,007,493	\$ 1,396,624	\$ 4,169,471
Total Expenditures	1,170,745	1,288,868	969,534	3,429,147
Excess of Revenues Over(Under) Expenditures	594,609	(281,375)	427,090	740,324
Other Financing Sources (Uses)				
Transfers From (To) Other Funds	(240,000)	-	-	(240,000)
Optional Transfers In (Out)	(281,375)	281,375	-	-
Total Other Financing Sources (Uses)	(521,375)	281,375	-	(240,000)
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	73,234	-	427,090	500,324
Fund Balances - Beginning of Year	704,484	-	40,765	745,249
Fund Balances - End of Year	\$ 777,718	\$ -	\$ 467,855	\$ 1,245,573

Alger County Road Commission
Analysis of Revenues and Other Financing Sources
For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Licenses and Permits	\$ -	\$ -	\$ 3,380	\$ 3,380
Federal Aid				
Surface Transportation Program	14,528	54,361	-	68,889
High Priority Funds	305,409	-	-	305,409
State Aid				
Michigan Transportation Fund				
Engineering	5,000	5,000	-	10,000
Primary Road	1,350,009	-	-	1,350,009
Local Road	-	591,806	-	591,806
Snow Removal	-	280,818	-	280,818
Economic Development Funds				
Target Industries "A"	25,863	-	-	25,863
Forest Road "E"	64,545	75,508	-	140,053
Contributions From Local Units				
Charges for Services				
State Trunkline Maintenance	-	-	1,301,755	1,301,755
Salvage Sales	-	-	8,325	8,325
Interest	-	-	14,022	14,022
Other Revenue				
Reimbursements	-	-	60,454	60,454
Gain on (Loss) on Equipment Disposals	-	-	8,688	8,688
Total Operating Revenue	<u>1,765,354</u>	<u>1,007,493</u>	<u>1,396,624</u>	<u>4,169,471</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>\$ 1,765,354</u>	<u>\$ 1,007,493</u>	<u>\$ 1,396,624</u>	<u>\$ 4,169,471</u>

Alger County Road Commission
Analysis of Expenditures and Other Financing Uses
For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Primary Roads:				
Heavy Maintenance	\$ 318,563	\$ -	\$ -	\$ 318,563
Maintenance	774,798	-	-	774,798
Local Roads:				
Heavy Maintenance	-	27,549	-	27,549
Maintenance	-	1,037,701	-	1,037,701
Primary Road Structures:				
Heavy Maintenance	20,278	-	-	20,278
Local Road Structures:				
Heavy Maintenance	-	60,604	-	60,604
Other:				
State Trunkline Maintenance	-	-	1,003,812	1,003,812
Equipment Expense - Net	43,688	67,025	59,014	169,727
Administrative Expense - Net	94,948	95,989	-	190,937
Capital Outlay - Net	(81,530)	-	(284,710)	(366,240)
Debt Service:				
Principle	-	-	170,075	170,075
Interest	-	-	21,343	21,343
Total Expenditures	<u>1,170,745</u>	<u>1,288,868</u>	<u>969,534</u>	<u>3,429,147</u>
Other Financing Uses:				
Transfers to Debt Service	<u>240,000</u>	<u>-</u>	<u>-</u>	<u>240,000</u>
Total Other Financing Uses	<u>240,000</u>	<u>-</u>	<u>-</u>	<u>240,000</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 1,410,745</u>	<u>\$ 1,288,868</u>	<u>\$ 969,534</u>	<u>\$ 3,669,147</u>

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Alger County Road Commission
Munising, MI 4862

We have audited the financial statements of the Alger County Road Commission; a component unit of the County of Alger, Michigan as of and for the year ended December 31, 2004, and has issued our report thereon dated March 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alger County Road Commission's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alger County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Alger County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in a separate letter to management dated March 11, 2005.

Board of County Road Commissioners
Alger County Road Commission
Munising, MI 49862

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, the audit committee, the Board, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 11, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Alger County Road Commission Report to Management Letter For the Year Ended December 31, 2004

To the Honorable Chairman and Members of
The Board of County Road Commissioners
Alger County Road Commission
Munising, MI 49862

In planning and performing our audit of the financial statements of the Alger County Road Commission for the year ended December 31, 2004, we considered its internal accounting control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions described below is believed to be a material weakness.

Reportable Conditions

Inventory

At year end the Road Commission's computer inventory module was damaged, therefore we were not able to test inventory quantities. We recommend that a physical inventory be taken on the total inventory annually. Also, we recommend that the Road Commission monitor the inventory on a regular basis.

To the Honorable Chairman and Members of
The Board of County Road Commissioners
Alger County Road Commission

This report is intended solely for the information and use of the organization's management, others within the organization's administration and .Federal or State regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Commission's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 11, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

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March 11, 2005

Board of County Road Commissioners
Alger County Road Commission
Munising, Michigan 49862

We have audited the financial statements of the Alger County Road Commission for the year ended December 31, 2004, and have issued our report thereon dated March 11, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the internal control structure over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on compliance with

those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of accounting policies and their application. The significant accounting policies used are described in the Footnotes of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants